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SOUTH VIETNAM: Prime Minister Khiem, who has worked closely with President Thieu in the past and is the President's alternate running mate, is increasingly taking the view that Thieu's decision to forge ahead with an uncontested election is a mistake.

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So far Khiem has been playing his cards close to his vest. He has not spoken out openly against Thieu or been drawn into any of the myriad of anti-Thieu opposition fronts that have mushroomed recently. He has not spoken out forcefully in support of Thieu either, however, preserving some measure of independence. By his public silence and private criticism of Thieu, Khiem probably hopes subtly to put some distance between himself and the President and avoid being dragged down with Thieu should the President's position become untenable.

Khiem is ambitious himself and may well want to keep his own political options open. He apparently resents the loss of some of his former standing with Thieu and the fact that he was not picked as Thieu's primary running mate; he has talked of running for a Senate seat in 1973 and the presidency in 1975. Khiem might even feel that he could become a presidential alternative sooner if Thieu stumbles badly.

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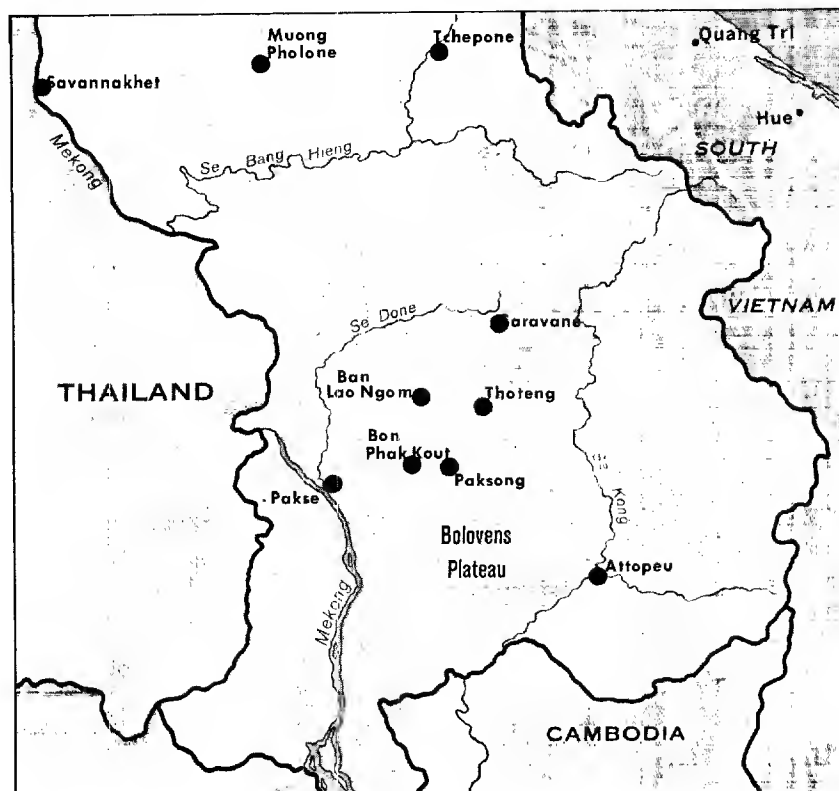
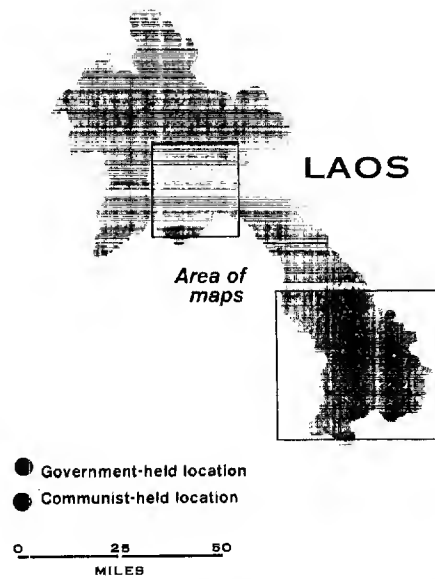


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LAOS: Government forces are consolidating their recent gains in both north and south Laos.

Some 400 Lao Army soldiers are now holding the town of Muong Soui, west of the Plaine des Jarres, which was occupied by irregular assault forces on 24 September. The town can serve as a base to support Vang Pao's irregular units on the Plaine des Jarres. Just north of the Plaine, the irregulars have so far been unsuccessful in their attempts to reoccupy high ground positions near Phou San.

US pilots report that the North Vietnamese appear to be moving increasing amounts of supplies to forward positions north and east of the Plaine.

The government has launched a drive to clear enemy units from high-ground positions northeast of Luang Prabang. During the last dry season, the North Vietnamese used this area as a base for launching attacks on the royal capital, and the government hopes to deny it to the enemy during the coming dry season.

In south Laos, government forces are consolidating their positions in and around Paksong; they have occupied most of the important high-ground positions near the town. Determined resistance by elements of the 9th NVA Regiment, however, has so far thwarted all government efforts to open Route 23 between Ban Phak Kout and Paksong.

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INDIA: The refugee influx from East Pakistan shows no sign of abating, but foreign relief aid is not keeping pace.

25X1 Indian officials and foreign observers agree that the current rate of refugee immigration is about 30,000 a day. According to Indian data, the refugee population passed the nine million mark last week. [ ] expect an increased refugee flow next month when traditional crossing points, blocked for weeks by flood waters, reopen.

25X1 Recent refugees have indicated that they fled mainly because of depredations by Pakistani troops and fighting between the army and Bengali guerrillas. [ ]

25X1 [ ] large numbers of young men also have left East Pakistan because they feared being recruited into the service of the martial law administration.

25X1 Aid pledged for the refugees now amounts to slightly over \$200 million. Some \$114 million has been extended through the UN, and \$92 million has been pledged in bilateral arrangements between India and other governments or through contributions by voluntary agencies. US aid accounts for almost 40 percent of the total extended to date. Despite outside aid, India has been forced to pay \$300 million--well above the amount of aid India has received to date. The World Bank reportedly estimates that another \$400 million will be needed in the next six months even if the influx stops. [ ]

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TURKEY-CYPRUS: The scheduled rotation today of Turkish troops on Cyprus most likely will take place without serious incidents, but several recent developments have raised the potential for trouble.

The semi-annual rotation--usually involving a force numbering between 300-400 men escorted by naval craft from Iskenderun to Famagusta--is often accompanied by rumors and sometimes by fears of a possible military confrontation. This time the current deadlock in the protracted intercommunal talks, the recent return of former guerrilla leader General Grivas to the island, and the not-so-veiled threats of possible Turkish military intervention on the island have aroused more apprehension than usual.

Although the rumors have lessened and tensions appear to have eased in recent days, several problems directly related to the rotation remain. The Turks finally gave eleventh hour assurances--demanded by the Greek Cypriots--that their naval escort craft will remain out of sight of land. There is yet an apparent impasse over some of the equipment that the Turks want to bring to the island with the rotating force and problems may arise when the equipment is unloaded. As in the past the Turkish armed forces have taken contingency steps to place major military units in the Iskenderun area in a state of readiness.

Nevertheless, with high-level diplomatic talks regarding Cyprus pending in New York and with some of Ankara's top military leaders absent from Turkey, it is doubtful that the Turks would make any overt effort to exploit the current rotation to spark a new crisis.

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PERU: The government is willing to increase its cooperation with the United States in combating traffic in illegal drugs.

On 24 September Interior Minister Richter informed the US ambassador that he agreed in principle to the re-establishment of an office of the US Bureau of Narcotics and Dangerous Drugs in Lima. He added that the government recently had discovered an extensive narcotics ring within the Ministry of Interior and that 18 members of the special investigative police now are under detention. In the last several weeks Peruvian authorities have seized almost 100 pounds of cocaine and destroyed 18 cocaine paste laboratories.

The government estimates that 25,000 Peruvian families earn their livelihood from growing coca leaves, and more than \$200 million is invested in coca plantations. Of the 10 million kilograms of coca leaf produced, 10 percent is exported legally and the rest is used illegally in Peru, primarily by highland Indians, or exported illicitly. Although the government is willing to cooperate to stop the illicit traffic out of the country, only extensive social and economic changes could make significant inroads into the use of coca by the Indians.

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KOREA: Pyongyang is attempting to appear more flexible on North-South contacts.

In an unusually lengthy and nonpolemical interview granted the Japanese newspaper Asahi Shimbun on 25 September, Premier Kim Il-song reiterated the principal elements of Pyongyang's eight-point program for unification put forward last April. He departed from past formulations, however, by implying that North Korea would abrogate its mutual defense agreements with China and the Soviet Union if South Korea would sever its military ties with the US. He indicated that Pyongyang would do this if the treaties "proved an obstacle to peaceful unification." Kim went on to point out that he had already made previous concessions to the South by agreeing in his 6 August statement to talks with the ruling Democratic Republican Party. He urged that a dialogue on the negotiations begin on 1 October.

Pyongyang clearly is trying to maintain the propaganda initiative at the current Red Cross talks. By offering to take steps that it knows Seoul will not follow, Pyongyang is also laying the groundwork for placing the onus on the South Koreans should the current talks bog down or fail to hold out a reasonable prospect for eventual negotiations on unification. Pyongyang obviously sees little risk in its latest gambit, knowing that influential elements in Seoul have misgivings about the current Red Cross contacts and that this has made the Pak government move slowly and cautiously. According to a Seoul press report on 27 September, a spokesman of the South Korean Foreign Ministry rejected Kim's proposal.

The 25 September interview also afforded Kim an opportunity to spell out in the most specific terms to date Pyongyang's endorsement of the prospective visit of President Nixon to Peking. Kim used much the same line of reasoning employed in his initial 6 August endorsement but went on to stipulate that while the visit may temporarily ease tensions in Asia it would have no impact on Pyongyang's attitude toward the US so long as American forces remained on Korean soil.

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BELGIUM: The government has taken measures to stimulate economic growth.

The economy currently is experiencing sagging domestic and export demand following the 1969-70 boom. Consumption has tapered off and, during the first five months of 1971, private savings have increased rapidly. Exports--equivalent to about 45 percent of gross national product--are stagnating as Belgian producers have postponed investment decisions and revised plans downward in reaction to economic slowdown in other EC countries and to the current international monetary situation.

To stimulate exports, the government has reduced the temporary export tax ahead of schedule. Although the reduction is supposed to apply uniformly to selected products regardless of country of destination, the selection is expected to include a disproportionately large number of products exported to the US, the most important being steel. This measure, designed in part to offset the competitive loss occasioned by the US surcharge and the upward drift of the Belgian franc, will exacerbate Belgium's budget deficit for the remainder of this year.

Additional measures to stimulate demand include a reduction of the discount rate, removal of credit ceilings, and the suspension of instructions to commercial banks not to increase foreign indebtedness. With the lifting of this suspension, the government hopes that an inflow of foreign capital will not only stimulate the economy, but also aid efforts by the Belgian and Dutch central banks to maintain the franc/guilder exchange rate within the limits specified in the recent Benelux monetary arrangement.



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SOMALIA: The conspiracy trial of two generals is the latest indication of President Siad's growing apprehension over the possibility of moves against his regime.

The powerful National Security Court is currently trying Generals Gaveire and Ainanshe, both former members of the ruling Supreme Revolutionary Council, and eight other individuals arrested last May for antigovernment plotting. The government is asking the death penalty for the generals as well as for three colonels and a former cabinet minister. In other recent moves designed to discourage coup plotting, the government has purged 12 other military officers, arrested several local employees of the US Embassy for antigovernment activity, and expelled a number of foreigners, including a US Embassy architect charged with plotting against the Siad government.

The trial could trigger reactions from those tribal, military, and other elements opposed to the government. Gaveire once held the defense portfolio, and before his arrest he was Siad's chief rival as well as the leading spokesman for disgruntled tribal groups that lost much of their influence after the military seized power in October 1969. [REDACTED]

[REDACTED]

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CHILE-USSR: The Chilean Army high command apparently was pleased by the reported extension of a Soviet military credit on favorable terms. [REDACTED]

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[REDACTED] The Chilean Army, encouraged by President Allende in its eagerness to update its antiquated material and add to its weaponry, recently sent a high-level mission to Moscow. That visit led to reports that credit had been extended and agreement had been reached to exchange army attachés. By playing on the army's very real need for new equipment, Allende has moved forward in his campaign to attract the army's loyalty and simultaneously to de-emphasize its dependence on the West. [REDACTED]

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TURKEY: The resignation of two cabinet members--the ministers of communications and natural resources--in the past two days suggests that dissension is increasing within the government. Rumors earlier this month of imminent cabinet changes had prompted Prime Minister Erim to issue public denials. Erim apparently has decided that he needs a more realistic political balance in his cabinet to speed parliamentary endorsement of his long-awaited reform program which was one of the basic demands of the military when they intervened last March to force the resignation of Prime Minister Demirel.

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IRAQ: The ruling circle in Baghdad continues to grow smaller with the dismissal yesterday of Vice President Ammash and Foreign Minister Shaykhli from their civilian posts and the Revolutionary Command Council (RCC). This action presumably is part of the continuous struggle for ultimate control in Baghdad in which Saddam Tikriti, RCC deputy chairman and deputy secretary general of the governing Ba'th Party, is said to have the upper hand. Tikriti has been at odds with Ammash and others, including President Bakr, who reportedly is ailing and whose position of power also is uncertain.

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GUYANA: Guybau, the government-owned bauxite operation, has rejected ALCAN's marketing offer in favor of a more extensive arrangement with Philipp Brothers of New York. The US company will market Guybau's entire output of bauxite and alumina after 1 January 1972 and it will aid Guybau in obtaining financial and technical assistance. According to a Canadian official, Guyana rejected the ALCAN offer because of a basic lack of confidence in the company, which resulted from the recent nationalization experience and subsequent unsuccessful efforts to obtain technical assistance from ALCAN. While the marketing issue appears settled for the moment, it remains to be seen whether profitable markets can be found for the ore, which is in worldwide oversupply, and whether potential shipping difficulties can be resolved.

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